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ABSTRACT

In states that depend on property taxes for school revenues, fair administration of the property tax is essential to ensure equitable state aid to all districts. Questions relevant to implementing a strategy for enhancing public support of the property tax as a source of local school revenue are answered in this report. The questions deal with the following areas: the uniformity of legal assessment standards; requirements for assessors; full market values; timing of assessments; the taxpayer appeal process; state programs of property tax relief for low-income citizens; different classifications for tax purposes; and flexibility of use. One table lists state-imposed restrictions on local school tax and expenditure powers. (LMI)

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National Education Association SCHOOL FINANCE REPORT

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HOW IMPORTANT IS THE PROPERTY TAX FOR SCHOOL FINANCE?

EA 023 694

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HOW IMPORTANT IS THE PROPERTY TAX FOR SCHOOL FINANCE?

In many states, state school aid is distributed in inverse proportion to the assessed value of property per pupil or to some measure of school district ability to raise local revenue that includes relative property value. In these states, it is absolutely essential that the state supervise the administration of the property tax to assure that no district gets an undue amount of state school aid by indulging in competitive under assessment of properties.

Census data tell us that school districts with tax authority obtained $50.5 billion in property tax revenue in 1987-88; these districts obtained 97 percent of their tax revenue from the property tax. School districts in some states, however, look to the city, county, or township of which they are a part for their school revenue. If these dependent school districts are assumed to have required an estimated 20 percent of the more than $60 billion in property tax revenue obtained by these governments, the property tax would account for more than $62 billion in school revenue. Total school revenue in 1987-88 amounted to about $162 billion. Thus, the property tax represented the source of almost $2 of every $5 of public school revenue in 1987-88.

The possibilities of replacing the property tax as a source of school support range from slim to none in virtually all states. Accordingly, educators and citizens interested in adequate funding for schools need to hold accountable those public officials responsible for its administration. Poor administration saps public confidence in government and robs the schools of a crucial source of school support.

State and local education Associations that want to implement a strategy to recapture public support for the property tax as a source of local school support might consider urging citizens to pursue the following questions.

1. Are the assessment standards provided by law applied uniformly?

- If the tax on similar properties is perceived by property owners to be unequal, property owners will not support the use of the property tax for schools.

- Information about assessments and their relationship to market value should be available from your local assessor and from your state revenue

department. If they do not have it, or won't share the information with you, you can be sure that the property tax is not well administered and that school finances suffer as a result.

2. Who administers the property tax in our state?

- In some states, assessors are appointed from lists of professionally qualified personnel who pass a competitive competency examination. In many states, assessors are popularly elected. Some of these states require persons running for the office of assessor to meet certain minimum qualifications -- language and mathematical literacy and experience in real estate activity. If no such standards are required, assessments of property are likely to be subjective. Property taxes will not be related to property value and property owners will recognize this and withhold their support for the use of the property tax to pay for schools.

3. Does the state government take an interest in seeing that the property tax is fairly administered?

- State law determines which taxes, including the local property tax, can be used for school and other local purposes. Thus, every state has an obligation to see that its citizens are treated fairly for state and local tax purposes.

4. Are assessments at or close to full market values?

- One simple test of assessment administration is to compare the sales prices of houses that have been sold with their assessments. Many states provide for such a test and use the results as the basis of adjusting property values in various jurisdictions to a common level that can then be applied in distributing state aid among school districts.

  All of the evidence gathered by the Bureau of the Census in five-year surveys of assessment practices demonstrates that the closer the assessment level is to market value (selling price), the less the disparities in assessment levels both within and among assessing jurisdictions.

- Full market value assessments contribute to equitable property taxation because they engage the taxpayer's interest. If, for example, the assessment level on average is 10 percent of current market value, taxpayers may not notice a disparity between a property assessed at 5 percent of current market

and the average of 10 percent. If, however, the assessment level is, on average, 90 percent of current market value, taxpayers will surely notice a disparity between a property assessed at 45 percent of current market and the average of 90 percent. The disparity in assessments and market value in these examples is proportionately the same, 50 percent, yet the effect would obviously differ because the lack of uniformity in the second example would trigger taxpayer action to bring about a fairer assessment.

5. When was the last time all property in our jurisdiction was reassessed?

- In virtually all states, property tax law contemplates uniformity in the assessment of property. That is, property should be valued as of a certain date, using the best information available at that time, and applying the same appraisal principles for determining assessed value.

- In some states, the law also contemplates that this be an annual valuation. Compliance with this mandate is possible today because of the application of computers to the assessment process. Computer-assisted mass appraisal exists in the better administered property assessment offices. It is expensive to initiate, but, once in place, it can be maintained at reasonable cost and with favorable results in taxpayer equity.

- In some jurisdictions, property is seldom, if ever, revalued for tax purposes. The tax roll is copied from one year to the next, without a reexamination of the properties. In other jurisdictions, property is supposed to be valued as of the price level of a certain date, often in the distant past.

- Any value other than current value robs the property tax of its fundamental rationale, namely, the distribution of a governmental cost among property owners in direct proportion to the relative value of their property. Obviously, the dynamics of our economic system produce constant change in property values as a result of either inflation or technological progress, or both.

6. Does our state have a rapid, inexpensive process by which taxpayers can appeal an assessment they believe is unfair?

- One of the best ways of establishing and maintaining a fair and equitable assessment administration is to have taxpayers call official attention to assessments they believe are out of line with the law or prevailing practice. This can be accomplished by giving property owners access to an easy,

informal administrative process for reconsidering an assessment that is believed to be incorrect.

- After the property owner has used such procedures, continued dispute over an assessment should proceed in a more formal way through the court system. Many states have established a tax court as the first step in the formal process of adjudicating disputes between the public and tax officials.

7. Does the state government have a program of property tax relief for low income individuals that will protect subsistence income?

- A few states provide a homestead exemption for all owner-occupants or for special classes of owner occupants such as veterans. This approach is harmful to the administration and collection of the property tax. The homestead exemption reduces the tax yield whether or not the property owner can afford to pay the property tax.

- Many states provide a tax credit or rebate under their income tax law for persons whose property tax represents an extraordinary burden on their income. This approach confines property tax relief to those who need it. It does not interfere with the assessment process.

- A few states provide for the deferral of property taxes on residences if the owner-occupants chose to defer payment until the property is transferred by sale or death. This minimizes interference with the private housing decision, preserves equity by requiring that all taxes be paid, and minimizes the loss of government revenues over the long run.

8. Does our state classify property for tax purposes so as to tax residential property at a lower effective rate than real estate used for commercial, industrial, and other purposes?

- The property tax legally applies differentially to various types of property in 19 states and the District of Columbia. In a few states, localities have been given the option to classify property for local purposes. In most states, classification is achieved by applying a standard rate to property types that are assessed at different levels of market value. West Virginia and the District of Columbia, in contrast, apply different rates to types of property that are assessed at a uniform level of market value. The practice of establishing different assessment levels is inferior because it--

a) makes it harder for taxpayers to evaluate the appropriateness of their assessed value

b) increases the potential for abuse of the assessment process and appears to make the assessor part of the tax-rate setting process

c) affects debt limits and other policies tied into assessed values

9. How much flexibility do local school authorities have to use the property tax?

- Except in the New England, the property tax is usually tightly bound up by a variety of restrictions. The restrictions thwart local school authorities' chances of using this tax source to increase school funding generally and to pay the salaries of education employees in particular.

  The various types of restrictions on the use of the property tax for schools are shown in Table 1.

Table 1.
State-imposed Restrictions on Local School Tax and Expenditure Powers

Overall Property Tax Rate Limit

Specifies maximum overall rate that may be applied against assessed value of property without a vote of the local electorate. The rate is usually expressed as mills (tenths of a cent) per dollar of assessed value. The overall limit refers to the aggregate tax rate for all local governments--municipal, county, school districts, and special districts (if applicable).

STATES

Alabama	Alaska	California	Kentucky
Michigan	Nevada	Ohio	Oklahoma
Virginia	Washington		

EFFECT: Each local government competes to get its maximum share of tax rate.

Specific Property Tax Rate Limit

Specifies maximum rate that school districts with taxing authority may apply against assessed value of property without a vote of the local electorate. Includes states where any school district rate must be approved by voters.

STATES

Alabama	Arkansas	Colorado	Delaware
Florida	Georgia	Idaho	Illinois
Kentucky	Louisiana	Minnesota	Mississippi
Missouri	Montana	Nebraska	Nevada
New Mexico	New York	Oklahoma	Pennsylvania
South Dakota	Texas	Utah	Washington
West Virginia	Wisconsin	Wyoming	

EFFECT: School district revenue depends on whether the assessor keeps property assessments at the legally required level in relation to market value. If not, school district must seek voter approval more frequently.

Table 1, cont.

Property Tax Levy Limit

Specifies the maximum revenue that a school district can raise from the property tax. This is typically enacted as an allowed annual percentage increase in the property tax levy.

STATES			
Arkansas	Idaho	Illinois	Indiana
Louisiana	Massachusetts	Michigan	Minnesota
Mississippi	Missouri	Montana	New Mexico
North Dakota	Ohio	Oregon	Washington

EFFECT: Makes school district revenue hostage to a factor not related to school operational costs. Assumes that the status quo is the correct level of school operations. Fails to take into account that school costs may be rising at a rate that differs from the allowable growth in the property tax levy.

General Revenue Limit

Specifies the total amount of revenue, from both property and nonproperty sources, that a local school district is allowed to collect during a fiscal year.

STATES		
Mississippi	Nebraska	Washington

Effect: Assumes present level of school operations is correct. Undermines local control of school program. Makes school revenue depend on factor having nothing to do with enrollment (workload measure), school program (local view of school needs), or school costs (utilities, books, personnel cost to recruit and maintain staff).

General Expenditure Limit

Specifies the maximum amount that a school district can either appropriate or spend during a fiscal year. This is usually legislated as an allowed annual percentage increase in operating expenses.

STATES			
Arizona	California	Colorado	Iowa
Kansas	Minnesota	New Jersey	

Table 1, cont.

EFFECT: Assumes present level of school operations is correct. Undermines local control of school program. Makes school revenue depend on factor having nothing to do with enrollment (workload measure), school program (local view of school needs), or school costs (utilities, books, personnel cost to recruit and maintain staff).

Limit on Assessment Increase

Specifies the maximum increase in assessed value to be applied to an individual property regardless of the change in its market value. The maximum allowable increase is usually less than the increase resulting from appreciating property values. School boards are forced to increase the tax rate if additional revenue is required, rather than rely on the revenue increase resulting from adjusting assessments to reflect rising property values. By limiting increases in assessments, taxpayers are protected from tax increases, but some taxpayers are protected substantially more than others because property values do not normally rise uniformly in any assessing jurisdiction. The result is that the property tax is applied less uniformly and therefore less equitably.

STATES

Arizona	California	Iowa	New Mexico
Oregon			

EFFECT: Distributes school costs arbitrarily rather than in accordance with current market value of taxable property. Deprives schools of revenue from property whose current market value increases at a rate faster than the allowable increase in assessed value.

Full Disclosure or Truth in Property Taxation

Requires school boards to advertise and hold public hearings on changes in the school budget that may require a tax rate increase. The purpose of the procedure is to promote public discussion and political accountability for public officials responsible for increased public spending.

Table 1, cont.

STATES			
Colorado	Florida	Illinois	Iowa
Kentucky	Michigan	Montana	Texas
Utah			

EFFECT: Gives schools an opportunity to justify requests for increased expenditures.

States not appearing in the table: Connecticut, Hawaii, Maine, Maryland, New Hampshire, North Carolina, Rhode Island, South Carolina, Tennessee, Vermont, Virginia.

N.B. In states where school districts are an agency of municipal or county government, as in Maryland and Virginia, the restrictions described may apply to cities and counties and thereby constitute a restriction on school funding.

Sources: NEA Research; Robert D. Ebel and James Ortbal, "Direct Residential Property Tax Relief" *Intergovernmental Perspective*, Advisory Commission on Intergovernmental Relations, Spring 1989, Vol. 15. No. 2 pp. 9-14; Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, 1988 Edition, Volume II, July, 1988, Washington DC; and review provided by NEA Research contacts.